Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

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Stakeholder group:	Academic

If replying on behalf of an Organization please complete the following:

Organization name:	Corporation 2020
Industry sector:	Not applicable
Geographical region:	North America

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

What I have repeatedly expressed throughout my responses is that the framework is flawed in one very large way: it is entirely too focused on the concerns of the companies themselves, and not nearly concerned enough about reporting the impacts of the companies in ways that don't affect their internal value creation. That is to say, it has nearly completed ignored the issue of externalities caused by companies. In fact, in the entire report, the word "externalities" is only mentioned in two places (2.44 and 4.29). Ignoring the word will not make the issue go away. What really matters to most stakeholders are not just those activities that lead to the creation of value for companies, but rather their impacts on value for society more broadly.
Too many organizations that provide information to investors begin from the assumption that all investors care about is what creates value. But, in reality, many investors care about companies' performance on issues other than financial value creation. This is evident from the growth of SRI funds, even though those funds use very incomplete data to build their portfolios. I believe that if investors had access to full integrated reports (i.e. ones that had information not just on risks/dependencies, but also externalities), we would see the growth of a much larger and more effective SRI industry.
Thus, it is very important that not just risks/opportunities be taken into account, but also impacts/externalities. If IIRC doesn't do this, then who will? If the purpose of the framework is to guide investors to be able to exercise some influence over the extra-financial performance of companies, then I would have to say that this framework is not yet fit for purpose.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

Other

4. Please provide any other comments you have about Chapter 1.

Paragraph 1.3 states that the purpose of an integrated report is to create "value" over multiple time periods. However, the term "value" is quite vague. While this may seem like a small detail, it is actually quite important if "value" is limited to private, financial value, or if it refers to the value in terms of the growth/stewardship of multiple forms of capital for multiple stakeholders.
In addition, the audience that <IR> addresses is too limited. Providers of financial capital may be a powerful group, but they are still but one stakeholder. The objectives of other groups, such as customers, the community, youth, staff, governments, and society at large should be given consideration as well.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

When most people hear the terms "natural capital", "social capital", etc., they believe that it is a discussion of the impacts of the firm on external stakeholders. However, the language used in the framework makes it sound like the firm should only steward these forms of capital to the extent that it benefits the company (i.e. that it will ultimately lead to expansion of private financial capital). The framework should make it very clear that companies cannot deplete public forms of capital in order to build private forms of capital.

6. Please provide any other comments you have about Section 2B?

Paragraph 2.25 states that it is important that an integrated report disclose the trade-offs "between capitals owned by the organization and those owned by others or not at all." This is a huge point, and deserves expansion throughout Section 2B. Much of the capital "creation" by companies might very well be capital "conversion" (from public to private) --- <IR> could help shed light on this phenomenon.

Business model (Section 2C)

A business model is defined as an organization’s chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

Paragraph 2.36 includes the statement, "...may require disclosure of the effects on capitals up and down the value chain, e.g. carbon emissions..." I believe that this statement must be amended such that companies MUST require disclosure of these effects. If companies are given the option to disclose their negative impacts, how many of them will choose to do so?

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

Paragraph 2.44 states that "<IR> takes account of the extent to which effects on the capitals have been externalized..." This seems to be untrue, as the entire framework is almost completely internally-focused.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

Too many reporting guides begin from the starting point that it is the firm's management that gets to decide what criteria are material. This is an unhelpful idea. If a company's operations have an impact on external stakeholders, then, whether it is acknowledged or not, those stakeholders have a right to say what is material. The materiality determination decision is the point in the process with the biggest gap for managers to sneak through. Other stakeholder groups must have a say in deciding what indicators are material.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

14. Please provide any other comments you have about Section 3E.

Paragraph 3.38 also provides another opportunity for corporate managers to shirk their responsibility to properly disclose their impacts. The current language suggests that managers will indeed be allowed to say that the cost of collecting data is simply too high, so they will choose not to report. In addition, Section 3F is likely not to be satisfied (i.e. comparison among competitors will not be possible) if each company is allowed to choose individually which indicators are material.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

Paragraph 3.20 states "Where the capitals are owned by the organization, a stewardship responsibility is imposed on management..." However, in fact, management has a stewardship responsibility regardless of whether the company owns the capital or not. Much of the capital stock impacted by the operations of companies is not actually owned by them, but they nonetheless have a responsibility not to pollute, extract, or degrade at will.

Chapter 4: Content Elements

16. *Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).*

There is definitely a need for another Content Element, on "External impacts". That is, what are the impacts that the company causes that are not incorporated in the "opportunities and risks" element or any others? In addition, these impacts must be measured in monetary terms. Who will provide framework, methodologies for valuing externalities, if not IIRC?

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. *Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?*

18. *Please provide any other comments you have about involvement of those charged with governance (Section 5D).*

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

20. *Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

Other

21. *Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).*

While Section 5G lays out a convenient dividing line between the mandated and voluntary levels of reporting ("control and significant influence"), it does not seem sufficient to me. What readers of sustainability reports care about generally are the impacts of the lifecycle of the company's products on the environment and society, not just the direct operations of the company and its subsidiaries. Thus, I would encourage IIRC to find a way to incorporate the outcomes of suppliers, employees, etc. in the mandatory reporting boundary.

Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

Development of <IR>

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

Other

24. Please provide any other comments not already addressed by your responses to Questions 1-23.

Please save the completed PDF form to you computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013